

Message Text

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ORIGIN AGRE-00

INFO OCT-01 EA-07 ISO-00 EB-07 STR-04 TRSE-00 SS-15
AF-10 ARA-10 EUR-12 NEA-10 SSO-00 EPG-02 IO-13
H-01 L-03 SP-02 AID-05 NSC-05 NSCE-00 CIAE-00
INR-07 INRE-00 /114 R

DRAFTED BY FAS:FCA:G&F:DJNOVOTNY:KML
APPROVED BY EB/ORF/OPF:PTAYLOR
FCA:BKMEEKER
ITP:SORENSEN
STATE:EB/OPF/FPB:FVAZNAUGH:3427
STR:JSTARKEY
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TO AMEMBASSY MANILA NIACT IMMEDIATE

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FOR USDA ASSISTANT SECRETARY HATHAWAY FROM NOVOTNY, MORROW

E.O. 11652: N/A

TAGS: EAGR, RP

SUBJECT: DRAFT US STATEMENT FOR LONDON IWC MEETING

1. FOLLOWING IS REDRAFT OF PREPARED STATEMENT FOR IWC.
AFTER INCORPORATING YOUR SUGGESTIONS, WE WOULD PLAN TO
MAKE ADVANCE DISTRIBUTION OF EITHER FULL COPY OR SUMMARY,
AS APPROPRIATE, TO (A) CANADA, AUSTRALIA, ARGENTINA
REPRESENTATIVES IN WASHINGTON ASAP NEXT WEEK, (B)
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WASHINGTON REPRESENTATIVES FOR EC, INDIA, EGYPT, JAPAN,
BRAZIL, AND USSR NOT BEFORE JUNE 23, AND (C) U.S.
EMBASSIES ABOVE COUNTRIES VIA CABLE FOR TRANSMITTAL TO
GOVERNMENTS CONCERNED, PLUS USEC, GENEVA MTN, AND
LONDON FOR IWC SECRETARIAT. OUR REASONS FOR THE ADVANCE
DISTRIBUTION ARE (A) TO IMPROVE OPPORTUNITY FOR MORE
SUBSTANTIVE REACTION FROM OTHER DELEGATIONS, (B) TO
ALLOW OTHER DELEGATIONS TO COME BETTER PREPARED TO JOIN
IN AN IDENTIFICATION OF ELEMENTS TO BE DEALT WITH IN
NEXT PHASE OF IWC WORK, AND (C) TO REDUCE LIKELIHOOD OF

DELEGATES EXPRESSING TENTATIVE REACTIONS OF DISAPPOINTMENT AT THE SESSION WHEN THEY LEARN U.S. IS NOT YET PREPARED TO FIX A TIMETABLE OR DEADLINE FOR NEGOTIATIONS. THE SEPTEMBER 1975 RESERVE PROPOSAL WAS GIVEN SIMILAR ADVANCE DISTRIBUTION. FULL TEXT FOLLOWS:

2. THE UNITED STATES HAS THREE BASIC OBJECTIVES WITH REGARD TO INTERNATIONAL TRADE IN WHEAT -- OBJECTIVES THAT WE HOPE ARE SHARED BY ALL WHEAT TRADING NATIONS. THEY ARE (A) TO REDUCE PRICE SWINGS, (B) TO REDUCE TRADE BARRIERS, AND (C) TO ENHANCE FOOD SECURITY, ESPECIALLY OF POOR NATIONS.

3. WE BELIEVE -- AND THE FAILURES OF THE PAST BEAR THIS OUT -- THAT THESE OBJECTIVES CAN ONLY BE REACHED THROUGH NEW FORMS OF SHARED ACTION. WE ALSO BELIEVE THAT THIS ORGANIZATION MUST TAKE THE LEAD IN DEVISING THESE NEW FORMS OF SHARED ACTION FOR INCORPORATION INTO A NEW INTERNATIONAL WHEAT AGREEMENT. AND WE BELIEVE THE TIME TO BEGIN IS NOW.

4. THIS ADMINISTRATION ALREADY HAS INDICATED TO THE WORLD COMMUNITY, IN MANY FORMS AND SEVERAL FORUMS, THAT IT WANTS TO WORK WITH OTHER NATIONS TOWARD DEVELOPING AGREEMENTS WHICH BOTH EXPAND AND STABILIZE TRADE IN AGRICULTURAL PRODUCTS.

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5. THIS HAS BEEN A CENTRAL THEME OF SECRETARY BERGLAND IN CONFERENCES WITH OTHER MINISTERS IN WASHINGTON, AT MEETINGS IN OTTAWA, AND IN THE FAR EAST. THE UNITED STATES HAS TOLD THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD) THAT IT IS WILLING TO CONSIDER INTERNATIONAL COMMODITY AGREEMENTS ON A COMMODITY-BY-COMMODITY BASIS. THE U.S. POSITION AT THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) INCLUDES SUPPORT FOR AN INTERNATIONAL AGREEMENT ON GRAIN RESERVES.

6. THIS IS A NEW DIRECTION IN U.S. POLICY, AND WE ARE GIVING PRIORITY ATTENTION ON THIS NEW COURSE TO ACHIEVING AN ARRANGEMENT ON WHEAT THAT WOULD PROVIDE FOR THE EXPANSION AND LIBERALIZATION OF TRADE, STABILIZATION OF THE MARKET, AND INCREASED FOOD SECURITY, INCLUDING AN INTERNATIONAL SYSTEM OF NATIONALLY HELD GRAIN RESERVES.

7. TO DO THIS, THE UNITED STATES WISHES TO EXPLORE AN AGREEMENT BASED ON TWO CONCEPTS:

(A) THAT ALL MAJOR GRAIN TRADING NATIONS -- EXPORTERS AND IMPORTERS -- WOULD ACCEPT MEANINGFUL OBLIGATIONS FOR RESERVE STOCKS, WITH COMMON GUIDELINES FOR ACQUISI-

TION AND RELEASE.

(B) THAT THE PARTICIPATING NATIONS AGREE TO MEASURES TO FACILITATE ADJUSTMENT OF CONSUMPTION AND PRODUCTION IN RESPONSE TO WORLD SUPPLY CONDITIONS.

8. THE OBJECTIVE SHOULD BE TO REDUCE FLUCTUATIONS AROUND THE LONG-TERM EQUILIBRIUM PRICE. WE DO NOT WANT AN AGREEMENT THAT WOULD ATTEMPT TO MAINTAIN THE AVERAGE PRICE OF WHEAT ABOVE ITS LONG-TERM EQUILIBRIUM PRICE, THAT IS, THE LEVEL REQUIRED TO PROVIDE REASONABLE RETURNS TO EFFICIENT PRODUCERS.

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9. IN SEPTEMBER 1975 THE UNITED STATES TABLED A PROPOSAL FOR AN INTERNATIONAL RESERVE STOCKS SYSTEM. AT THAT TIME, WE ADVOCATED THE USE OF QUANTITATIVE TRIGGERS FOR COORDINATED STOCK ACTIONS. WE ARE NOW PREPARED TO COOPERATE IN DEVELOPING A RESERVES AGREEMENT IN WHICH WORLD PRICES WOULD BE A TRIGGER FOR STOCK ACTIONS.

10. WE HOPE THIS WILL HELP MOVE NEGOTIATIONS FORWARD.

11. THERE DOES SEEM TO BE CONSENSUS ON THE USEFULNESS OF COORDINATED RESERVE STOCKS BASED ON PRICE INDICATORS, BUT THIS IS NOT ENOUGH. WE STILL MUST DETERMINE WHETHER A PRACTICAL AND EQUITABLE SYSTEM CAN BE DEVELOPED. UNTIL WE FIND OUT WHETHER IT CAN, TAKING INTO ACCOUNT THE DIFFERENCE IN SYSTEMS OF THE COUNTRIES THAT WOULD PARTICIPATE, MEANINGFUL NEGOTIATIONS ON RESERVES FOR PRICE STABILIZATION PURPOSES CANNOT BEGIN.

12. THERE ALREADY HAS BEEN SOME TECHNICAL EXAMINATION OF THIS QUESTION, BOTH IN THE WORK OF THE PREPARATORY GROUP TO DATE, AND IN SOME INFORMAL SESSIONS RECENTLY HELD BETWEEN CERTAIN WHEAT EXPORTING COUNTRIES. HOWEVER, IT IS OUR VIEW THAT FURTHER EXAMINATION IN THE NEXT TWO OR THREE MONTHS IS ESSENTIAL BEFORE A JUDGMENT CAN BE MADE AS TO WHETHER A BASIS EXISTS FOR NEGOTIATION ON THIS PARTICULAR ELEMENT.

13. AS MANY OF YOU KNOW, THE UNITED STATES HAS TAKEN STEPS TO CREATE A LIMITED DOMESTIC RESERVE. UNDER THIS PROGRAM, PRODUCERS WILL CARRY MORE GRAIN IN PERMANENT STORAGE THAN WOULD OTHERWISE BE THE CASE. THE FRAMEWORK ESTABLISHED BY THIS NEW STEP WAS IN LARGE PART DESIGNED TO FACILITATE U.S. PARTICIPATION IN A POSSIBLE NEW INTERNATIONAL PROGRAM FOR COOPERATION ON RESERVES.

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14. WE BELIEVE THAT DETAILS OF THIS PROGRAM MIGHT BE ADJUSTED TO ACCOMMODATE A SYSTEM FOR JOINT INTERNATIONAL ACTIONS. THE U.S. SENATE, FOR EXAMPLE, HAS INCLUDED IN ITS FARM BILL PROVISIONS FOR GRAIN RESERVES FOR BOTH MARKET STABILIZATION AND FOOD AID, WITH THEIR SIZES SUBJECT TO THE RESULTS OF INTERNATIONAL NEGOTIATIONS.

15. RESERVE STOCKS ARE A FIRST LINE OF DEFENSE AGAINST EXCESSIVE PRICE SWINGS. BUT WE MUST ALSO RECOGNIZE THAT NATIONAL POLICIES WHICH PREVENT ADJUSTMENTS OF CONSUMPTION AND PRODUCTION IN RESPONSE TO WORLD SUPPLY CONDITIONS ARE AN IMPORTANT SOURCE OF PRICE INSTABILITY IN WORLD MARKETS. THEREFORE, IF AN EFFORT TO REDUCE PRICE SWINGS IS TO BE DURABLE OVER TIME, WE MUST ALSO DEVELOP COOPERATIVE MEASURES TO ALLOW SUCH ADJUSTMENTS.

16. IN PARTICULAR, THE UTILIZATION OF WHEAT FOR FEED AND INDUSTRIAL PURPOSES SHOULD BE ALLOWED TO INCREASE WHEN WHEAT SUPPLIES BECOME TEMPORARILY BURDENSOME AND TO DECREASE WHEN SUPPLIES ARE TIGHT. THIS WILL ASSURE THAT MORE WHEAT IS AVAILABLE FOR ESSENTIAL HUMAN CONSUMPTION, ESPECIALLY IN DEVELOPING COUNTRIES, DURING PERIODS OF SHORTAGE. THROUGH JOINT ACTIONS, THE MAGNITUDE OF SUCH ADJUSTMENTS COULD BE ENLARGED. THIS WOULD BRING GREATER STABILITY AND SECURITY TO THE WORLD MARKET. WE BELIEVE THIS SHOULD BE AN ADDITIONAL AREA FOR NEGOTIATION.

17. WITH RESPECT TO THE AVAILABILITY OF SUPPLIES TO THE WORLD MARKET, WE MUST ALSO CONSIDER PROVISIONS IN A NEW AGREEMENT ON DOMESTIC USE SUBSIDIES, THE APPLICATION OF EXPORT RESTRAINTS, AND PERHAPS EVEN PRODUCTION ITSELF.

18. THE UNITED STATES ATTACHES GREAT IMPORTANCE TO IMPROVING THE FOOD SECURITY OF POOR NATIONS. IN OUR LIMITED OFFICIAL USE
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VIEW, EFFECTIVE MEASURES TO REDUCE EXTREME PRICE SWINGS IN THE WORLD WHEAT MARKET WOULD HAVE IMPORTANT BENEFITS FOR THOSE DEVELOPING COUNTRIES THAT EITHER REGULARLY OR OCCASIONALLY HAVE LARGE FOOD DEFICITS. THESE BENEFITS WOULD LIKELY BE GREATER THAN THOSE WHICH COULD BE EXPECTED TO RESULT FROM SOME SPECIAL MEASURES AIMED SOLELY AT DEVELOPING COUNTRIES.

19. NEVERTHELESS, SPECIAL MEASURES FOR THESE COUNTRIES MAY BE NEEDED. THERE ARE VARIOUS POSSIBILITIES, SUCH

AS ENLARGEMENT OF THE FOOD AID CONVENTION AND THE ESTABLISHMENT OF SPECIAL STOCKS TO BE RESERVED FOR FOOD AID PURPOSES.

20. I TALKED EARLIER ABOUT THE NEW ATTITUDE OF THE UNITED STATES TOWARD THE ROLE OF PRICE IN A NEW AGREEMENT, AND I WOULD LIKE TO CLARIFY THAT ATTITUDE. PRICE SHOULD HAVE A ROLE IN INDICATING THE NEED FOR JOINT ACTION ON STOCKS, AND ON MEASURES INFLUENCING UTILIZATION AND THE

AVAILABILITY OF SUPPLIES. IN PREVIOUS MEETINGS OF THE PREPARATORY GROUP, THE UNITED STATES HAS CONSISTENTLY TAKEN THE POSITION THAT THE TRADITIONAL FORM OF PRICE PROVISIONS DOES NOT APPEAR CAPABLE EITHER OF BEING NEGOTIATED OR OF BEING CARRIED OUT. WE CONTINUE TO BELIEVE THAT OBLIGATORY FLOOR OR CEILING PRICES CANNOT BE BOTH EQUITABLE AND WORKABLE.

21. IT IS ALSO NECESSARY THAT ANY AGREEMENT ON WHEAT BE CONSISTENT WITH EFFORTS ELSEWHERE TO REDUCE BARRIERS TO GRAIN TRADE. AN AGREEMENT THAT USES RESERVE STOCKS TO MODERATE PRICE SWINGS CANNOT BE REGARDED AS A SUBSTITUTE FOR PERMANENT REDUCTIONS IN BARRIERS TO TRADE.

22. FINALLY, WE WANT TO MAKE CLEAR THAT THE U.S. WILL NOT BE IN A POSITION TO CARRY A BURDEN OF SHORT-TERM LIMITED OFFICIAL USE
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ADJUSTMENTS AS LARGE AS THAT WHICH THE WORLD BECAME ACCUSTOMED TO IN PRIOR DECADES. AT TIMES THIS BURDEN HAS TAKEN THE FORM OF EXTREME STRESS UPON THE ORDERLY FLOW OF SUPPLIES OF GRAINS FOR USERS WITHIN THE U.S. AND AT TIMES THE BURDEN HAS TAKEN THE FORM OF AN UMBRELLA IN THE WORLD MARKET UNDER WHICH OTHER EXPORTERS HAVE TAKEN A LARGER SHARE OF THAT MARKET. THERE ARE CONDITIONS WHICH CANNOT BE EXPECTED IN THE YEARS AHEAD. CONTINUED GROWTH OF WORLD TRADE, INCLUDING A REASONABLE U.S. SHARE OF SUCH GROWTH, HAVE BECOME EXTREMELY VITAL NOT ONLY TO U.S. AGRICULTURE BUT TO THE U.S. ECONOMY. A NEW AGREEMENT NEEDS TO TAKE ACCOUNT OF THESE CONCERNS AND MUST ENSURE THAT THE BURDENS OF PROVIDING GREATER STABILITY TO THE WORLD MARKET ARE EQUITABLY SHARED.

23. IN CONCLUSION, THE UNITED STATES BELIEVES THAT NEGOTIATIONS FOR A NEW INTERNATIONAL WHEAT AGREEMENT MUST BE PURSUED. BUT, WE STRONGLY BELIEVE THAT, TO ASSURE SUCCESS, FURTHER WORK BY THE PREPARATORY GROUP IS ESSENTIAL BEFORE A DECISION CAN BE REACHED TO CONVENE NEGOTIATIONS.

24. WE ARE OPTIMISTIC THAT PROGRESS CAN BE MADE, AND

WE HOPE THAT THE COUNCIL CAN AGREE AT THIS TIME ON THE

NEXT STEPS TO BE TAKEN.

FOREGOING DRAFT HAS NOT REPEAT NOT YET RECEIVED FINAL
CLEARANCE FROM AGENCIES OUTSIDE USDA. WE WILL SEND FINAL
DRAFT AFTER INCLUDING SUGGESTIONS BY YOU AND OTHER
AGENCIES. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOODS, AGRICULTURAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 18-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE142169
Document Source: ADS
Document Unique ID: 00
Drafter: FAS:FCA:G&F:DJNOVOTNY:KML
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Expiration:
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From: STATE
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Litigation Code IDs:
Litigation Codes:
Litigation History:
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Message ID: ca1d9e73-c288-dd11-92da-001cc4696bcc
Office: ORIGIN AGRE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2012812
Secure: OPEN
Status: NATIVE
Subject: DRAFT US STATEMENT FOR LONDON IWC MEETING
TAGS: EAGR, RP, XX, WFC, (BERGLAND, BOB)
To: MANILA NIACT
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ca1d9e73-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009